



STATE OF MICHIGAN
STATE BOARD OF EDUCATION
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**STATE BOARD OF EDUCATION
CHARTER SCHOOL TRANSPARENCY RECOMMENDATIONS**

The State Board of Education is Constitutionally charged with general oversight and supervision of public education in Michigan. Charter schools are taxpayer-funded, public schools that provide an alternative to traditional public schools and are a growing part of Michigan's public education system.

Many Michigan charter schools are managed by for-profit Education Management Organizations (EMOs). In addition, several charter schools operate in buildings owned by a real-estate holding company directly related to the managing EMO, and leased to the school for which the EMO oversees the distribution of the school's budget.

The SBE is concerned about the potential for abuse that may be caused by this informal relationship between the EMOs and their commercial real-estate interests. Specifically, the SBE is concerned about charter school lease agreements that far exceed standard market value rates.

In addition, the indirect relationship between an EMO serving as both the operator of a school with control over that school's budget (otherwise known as a sweep contract), as well as the landlord, raises questions about a charter school board's ability to fulfill their fiduciary responsibility by influencing and/or negotiating lease contacts on behalf of the students they represent.

The State Board of Education respectfully requests legislation is created to address the potential for excessive lease agreements between education management companies and their charter school boards, which may result in unusually high profit margins for EMOs and their real-estate holding companies, at the expense of instruction.

Specific legislative recommendations include:

- Charter School lease agreements should reflect market conditions, which may be reflected through standard building appraisals, and be subject to negotiation by a charter school board.
- Provide Charter School Authorizers with the responsibility and the authority to review and approve lease agreements, as well as the authority to disapprove any lease agreement that may not reflect market conditions.
- Outlaw the use of "sweep contacts" for EMOs and their real-estate holding companies that own or lease a building in which the school resides.

Approved May 14, 2013

STATE BOARD OF EDUCATION

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